

Bank of America, BAC

Sector: Financial (Large Banks)

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$ 74.18	\$ 53.62	\$54.87	\$42.10	0.56	13.1	242.68 Billion	4.20%

Business Summary

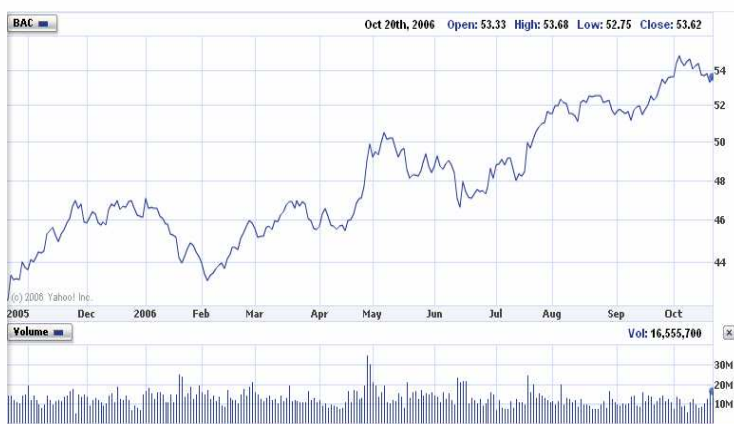
Bank of America (BAC) is a financial services holding company that provides commercial, retail, and foreign banking services; originates home mortgage loans; and operates full-service and discount securities businesses. It also issues credit cards and provides computer banking services. The company offers securities underwriting and other investment banking services to corporations. It operates about 5,700 banking offices throughout the United States. (Morningstar)

Business Units

Global Consumer & Small Business Banking – 56% (1H06 Rev)
 Global Corporate & Investment Bank -31%
 Global Wealth & Investment Management – 12%
 All Other – 2%

Industry Trends

- Federal Reserve has suspended rate increases, easing pressure on Net Interest Margins (NIM); industry stock prices have rebounded as a result
- However, credit spreads are still tight
- Consolidation through mergers and acquisition continues at a robust pace
- Credit card growth slowing, loss reserves may begin to increase after uncharacteristically low
- Banks now offering low prices to compete with discount brokerages (BAC has just offered 30 free trades per month for accounts worth \$25,000 or more)



Financial Ratios

Return on Equity	16.00%
Operating Margins	28.77%
Trailing P/E	13.05
PEG	1.28
P/FCF	(1.73)
Debt to Equity	4.11

Competition

- JP Morgan (JPM) and Citigroup (C) are largest competitors, but these banks rely more on volatile investment banking and money management and have much higher betas and P/Es
- Competes with JPM and C and Wells Fargo (WFC) on credit cards, deposits, syndicated loans
- Competitors have smaller deposit base and therefore have more expensive source of funding than BAC

Company Specific Strengths

- Only true “coast to coast” retail bank (5700 branches in 29 states and DC)
- Realization of cost savings from acquisitions of Fleet and MBNA occurring ahead of schedule and is greater than expected
- Company is market leader in transaction checking accounts and online bill pay (over 50% share among large banks) – strong fee generators
- High return on assets for a bank (1.3%), expected to increase after MBNA acquisition because credit card business has high returns (over 4% ROA)
- Aggressive cross selling to retail branches customers has been successful, especially new credit card accounts
- Company able to turn away rate sensitive deposits and maintain a stable 3.0% spread on deposits instead of offering high rates to attract customers (ex. ING, HSBC)

Company Specific Threats

- Stock trading near all time high due to rate environment changes, near term price appreciation may be limited but P/E around 5 year average
- Credit card losses expected to increase after rate increases and effect of 2005 bankruptcy bill settles in
- Brokerage and investment banking departments still weak compared to competition, no clear competitive advantage
- Large unrealized loss for trading and AFS securities, may have to report large losses if it repositions balance sheet

Valuation

Beta	0.56
Risk Free Rate	4.88%
Market Risk Premium	5.52%
WACC	6.22%

Growth Assumptions

2006-2015	8.0%
Perpetual	3.5%

Intrinsic Value \$74.18

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